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SHANGHAI, CHINA

November 9th, 1934.

Commissioner of Customs,
Division of Customs Agents,
Washington, D. C.

Re - Formosan and Amoy Opium Deal.

Sir:

According to a report received from our Amoy agent yesterday, a huge transaction in opium is now under negotiation between the Japanese Formosan Government and the opium combine in Amoy, under the leadership of the notorious Paul Yip, Chairman of the Lu Tung Co. (隆通公司), Board of Directors, the main opium agency of the Government Opium Monopoly Bureau of Fukien. This information is the result of a careful observation of the activities of the drug ring by our Amoy agent for the past few weeks. It has also been confirmed by a Japanese friend of his who is well acquainted in Japanese army circles in Formosa and who happened to travel on the same steamer with Paul Yip on his return trip to Amoy from Formosa recently. In the light of Paul Yip's close relationship with the Japanese during the past months and judging from information received from other channels, the facts as contained in this report submitted by our Amoy agent are believed well founded.

At the invitation of the Japanese authorities of the Formosan Government Opium Monopoly Bureau, Paul Yip paid a visit to Taihoku with Chen Chang-fu (陳長福), Chairman of the Formosan Association (台灣公會) of Amoy, and a noted racketeer. They left Amoy on the 17th of October per S. S. Hosen Maru (鳳山丸) and returned from Formosa by the same steamer on the 22nd. Their mission was to negotiate with the Japanese authorities in Formosa regarding the purchase of a big shipment of Persian opium for distribution in South China and also for manufacturing into narcotic drugs. The shipment of Persian opium has been held in Formosa for the past four years on account of diplomatic reasons.

~~It is reported that as a result of the great decrease in the number of registered opium addicts in Formosa in recent years, the Japanese monopoly authorities planned to have a registration of new addicts in the year 1930 in order to increase the revenue. Before the registration of new addicts took place, the monopoly bureau in Formosa ordered a big shipment of opium from Persia valued at Yen 10,000,000.00 to meet the potential increased demand of new registered addicts. It happened, however, that the League of Nations sent a commission of inquiry to the Far East to investigate~~

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into opium smoking conditions in the same year. The commission visited Formosa shortly after the arrival of the shipment of opium from Persia. Owing to strong public opposition against the registration of new addicts and on account of change of cabinet, this big shipment of opium attracted considerable attention of the Formosan people. Consequently, this news was reported to the League of Nations Commission, then in Formosa, by some anti-opium leaders there. An inquiry was addressed by the League, to the Japanese authorities regarding the shipment of opium, to which the Japanese gave a flat denial. Finally this big shipment of opium was sealed up at the order of the Formosan Governor so as to avoid any international criticisms.

Since the Manchurian affair, the Japanese army in Formosa planned to create an atmosphere favorable to their intervention and the ultimate annexation of Fukien Province by buying Chinese traitors and supporting rebellious bandit armies in the interior of the province to act as their tools in disturbing peace and order. This naturally required a big sum of money. At the request of the army authorities, the Japanese Government agreed to sell this big shipment of Persian opium and use the proceeds to finance a military campaign in Fukien. When General Tu Chi-yun (杜起雲) was sent to Fukien shortly after the failure of the regime of the 19th route army, a Japanese army agent by the name of Genki (根奇) came to Amoy and plotted with General Tu regarding the creation of a Japanese puppet state in Fukien. He came with big quantities of Persian opium valued over Yen 100,000.00 which was intended to help Gen. Tu in the re-organization of bandit forces in the interior. The smuggling of this Persian opium by Genki and his men from Formosa into Amoy resulted in several armed conflicts between the Formosan rascals and the Chinese Custom Staff. These incidents are still fresh in the minds of the public. General Tu's notorious plots were soon discovered by higher authorities. He was subsequently arrested and sent to

Nanchang for execution. Genki, the Japanese army agent also met his death soon afterwards. The whole scheme collapsed in this way.

After the failure of the above scheme, an offer was made to Paul Yip by the Japanese army, through Chen Chang Foo, the notorious Formosan racketeer in Amoy, to sell the above mentioned shipment of Persian opium, which originally cost Yen 10,000,000.00 at the reduced price of Yen 5,000,000.00 for distribution in South China and also for the manufacturing of narcotic drugs. All the conditions relating to this transaction have been agreed upon between both parties. According to the agreement Paul Yip must pay a deposit of Yen 1,000,000.00 in advance and the Japanese will guarantee to deliver the shipment of opium in Amoy by carrying it over in gun boats. The remaining Yen 4,000,000.00 will be paid by the Paul Yip combine in a given length of time. The visit to Formosa was made by Paul Yip under great secrecy. Since his return, he has been busily engaged in consulting with his fellow accomplices and in raising of necessary funds for this transaction. It is believed that aside from business considerations, grave political significance is attached to this opium deal.

Respectfully,

M. R. Nicholson
Treasury Attaché

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